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BEFORE THE ARIZONA CORPORATION COMMISSION

LEA MÁRQUEZ PETERSON

Chairwoman

SANDRA D. KENNEDY

Commissioner

JUSTIN OLSON

Commissioner

ANNA TOVAR

Commissioner

JIM O'CONNOR

Commissioner

Arizona Corporation Commission

DOCKETED

JAN 31 2022

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF UNS ELECTRIC, INC. FOR APPROVAL
OF A TEMPORARY PURCHASED POWER
AND FUEL ADJUSTMENT CLAUSE
SURCHARGE FOR THE PERIOD OF
FEBRUARY 1, 2022 THROUGH JANUARY
31, 2024

DOCKET NO. E-04204A-21-0374

DECISION NO. 78437

ORDER

Open Meeting
January 11 and 12, 2022
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. UNS Electric, Inc. ("UNSE" or "Company") is engaged in providing electric power within portions of Arizona pursuant to authority granted by the Arizona Corporation Commission ("Commission"). UNSE provides electric services to Kingman, Lake Havasu, Nogales and other communities in Mohave and Santa Cruz counties in Arizona.

2. On November 19, 2021, UNSE filed a request with the Commission for approval of a temporary surcharge of \$0.01262 per kilowatt-hour ("kWh") to its Purchased Power and Fuel Adjustment Clause ("PPFAC") rate for a 24-month period, from February 1, 2022, through January 31, 2024, in accordance with the PPFAC Plan of Administration ("POA").

3. Also, on November 19, 2021, UNSE filed a motion in Docket No. E-04204A-18-0065 to amend Decision No. 76720 (May 22, 2018) related to the 2017 Tax Cuts and Jobs Act

1 (“TCJA”). In that motion, UNSE has requested that a credit for tax savings be authorized and
2 applied to customer bills at the same time as the proposed PPFAC surcharge.

3 4. The Company recovers the costs associated with obtaining power supplies through
4 the PPFAC. The current PPFAC rate structure, approved in Decision No. 70360 dated May 27,
5 2008, and updated in Decision No. 74235 dated December 31, 2013, calculates the PPFAC rate
6 based upon a 12-month rolling average of fuel, purchased power and purchased transmission costs;
7 and is reset monthly, to ensure that the PPFAC rate in a given month reflects the pertinent 12-month
8 rolling average of relevant costs. All revenues from Short-Term Off-System Sales and sales of
9 renewable energy credits that do not flow through the Renewable Energy Standard Tariff surcharge
10 are credited against fuel and purchased power costs. To insulate ratepayers from the volatility of
11 fuel and purchased power markets, the PPFAC rate has an upper and lower threshold pursuant to
12 Decision No. 74235 and cannot exceed a 0.83 percent increase or decrease from the previous
13 month’s Total Average Retail Fuel and Purchased Power Rate, unless authorized by the
14 Commission.

15 5. The PPFAC bank balance shall reflect any over or under recovery of actual purchased
16 power and fuel costs compared with the amount recovered through the Base Fuel and Purchased
17 Power and PPFAC rates. Pursuant to Decision No. 75697, dated August 18, 2016, the Average Base
18 Rate for Fuel and Purchased Power is \$0.053689 per kWh. Should the PPFAC bank balance become
19 over-collected by more than \$10 million, UNSE must file for a PPFAC rate adjustment within 45
20 days or contact Utilities Division Staff (“Staff”) to discuss why a PPFAC rate adjustment is not
21 necessary at that time. If the PPFAC bank balance is under-collected, the Company has the right to
22 file an application with the Commission requesting a surcharge.

23 6. The Commission approved requests from UNSE for surcredits in order to return over-
24 collected PPFAC costs on May 22, 2017, in Decision No. 76094, and on May 29, 2019, in Decision
25 No. 77203. The PPFAC rate surcharge requested in the current Docket is the first to be requested
26 by UNSE to recover under-collected costs.

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CURRENT UNDER-COLLECTION

7. In the filing for its current PPFAC rate surcharge request, UNSE stated that its resource portfolio is comprised of 283 Megawatts (“MW”) of natural gas capacity and 67 MW of renewable resource capacity, with a system-wide peak demand of approximately 430 MW. Subsequently, UNSE relies on the wholesale energy market to meet about 30 percent of its annual resource needs to serve its retail load and maintain sufficient reserve margins. UNSE additionally stated, in the filing, that it hedges up to 90 percent of its forecasted demand over a rolling forward 36-month period to help mitigate price volatility.

8. Pursuant to the Commission approved PPFAC POA, UNSE has limited month-to-month PPFAC rate adjustments to remain within the upper and lower threshold. Subsequently, periodic increases in PPFAC costs have exceeded UNSE’s ability to recover the associated under collections through the monthly PPFAC rate adjustments. A number of external factors have contributed to the increases in UNSE’s PPFAC costs including volatility in fuel prices and not requesting a PPFAC surcharge in early 2020, when the PPFAC bank balance reached \$17 million in under-collections, due to the COVID-19 pandemic.

9. As a result of the combination of the limited monthly PPFAC rate adjustments and the volatility in fuel prices, UNSE’s PPFAC bank balance reached \$48 million in under collections as of October 31, 2021. This under-collected bank balance is expected to continue to increase given current forward market conditions and, according to UNSE, is estimated to reach \$60 million or more by the end of 2022 should no surcharge be approved.

10. The monthly bill impact associated with the proposed surcharge is based upon an average monthly residential usage of 852 kWh as well as its in-tandem filing for accelerating the refunds resulting from the TCJA. Based on its proposal for a 24-month surcharge of \$0.01262 per kWh (beginning February 1, 2022, and expiring January 31, 2024), UNSE states that the average residential customer would see a bill increase of \$10.75, or 11.6 percent of the total bill, factoring in the tax credits results in a net increase of \$9.07, or 9.8 percent. This surcharge calculation includes UNSE’s expected savings from participation in the Western Energy Imbalance Market (“EIM”) through the anticipated entrance of its Balancing Authority, Tucson Electric Power Company

(“TEP”), into EIM in April of 2022. The accelerated tax credits are intended to mitigate the surcharge impacts; however, they are not applicable to the PPFAC balance and thus are not factored into the surcharge calculation.

STAFF ANALYSIS AND RECOMMENDATIONS

11. The proposed PPFAC rate surcharge would be applied to customers’ bills from February 1, 2022, through January 31, 2024. Should the under-collection in UNSE’s PPFAC bank balance reach zero, the temporary surcharge would terminate.

12. In its application, UNSE provided three scenarios for implementation of a surcharge to recover the current \$48 million in under-collections: an 18-month surcharge of \$0.01721/kWh, the aforementioned 24-month surcharge of \$0.01262, and a 30-month surcharge of \$0.00987. The breakdown concerning estimated average monthly bill impact resulting from the surcharge scenarios, both before the inclusion of the accelerated tax credit and afterwards, is included in the following table:

Average Monthly Residential Bill Impacts (with 850 kWh average monthly usage)	18-Month Surcharge	24-Month Surcharge	30-Month Surcharge
Proposed Surcharge Rate, \$/kWh	\$0.01721	\$0.01262	\$0.00987
PPFAC Surcharge - Monthly Bill Impact	\$14.65	\$10.75	\$8.40
Tax Credits - Monthly Bill Impact	-\$1.94	-\$1.68	-\$1.53
Net Monthly Bill Impact	\$12.71	\$9.07	\$6.87
Net Monthly Bill Impact (%)	13.7%	9.8%	7.4%

The estimated remaining PPFAC bank balance, listed in six-month intervals following a proposed effective start-date of February 1, 2022, across all three scenarios, is listed in the following table:

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Estimated Remaining October 31, 2021 Bank Balance (With Effective Start-Date of February 1, 2022)	18-Month Surcharge	24-Month Surcharge	30-Month Surcharge
February 1, 2022	\$48,000,000	\$48,000,000	\$48,000,000
July 31, 2022	\$32,201,648	\$36,148,448	\$38,513,089
February 1, 2023	\$15,995,199	\$23,997,641	\$28,792,133
July 31, 2023	\$196,846	\$12,146,090	\$19,305,222
February 1, 2024		0	\$9,584,266
July 31, 2024			\$97,355

13. As stated previously, the PPFAC bank balance by the end of 2022, without an approved PPFAC surcharge, is estimated to be under collected by \$60 million or more. Interest¹ will continue to accrue on any under-collected balance. UNSE states that this estimated under-collection would pose a significant financial risk to the Company and may lead to higher financing costs that would impact base rates. Additional under-collections beyond those forecasted by UNSE may result in not only the need for a higher surcharge in the future, but also a heightened possibility that such a surcharge could be compounded by higher financing costs.

14. The 24-month surcharge, to recover \$48 million in under-collections, has been requested by UNSE in order to ensure the timely recovery of the PPFAC bank balance. Given that any additional under-collections to the PPFAC bank balance occurring after October 31, 2021, would not be recovered through the proposed surcharge, the 24-month timeframe would allow UNSE to recover incurred costs while mitigating the potential for additional under-collections to accrue.

15. It is reasonable to terminate the surcharge in the event that the under-collections in the Company's PPFAC bank balance reach zero. Such a termination would limit any over-collections that might occur if the surcharge stayed in place after the bank balance reached zero.

¹ Based on one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15, currently 0.1000%.

16. Staff recommends that the Commission approve a temporary PPFAC rate surcharge of \$0.01262 per kWh from February 1, 2022, through January 31, 2024. However, the 30-month surcharge scenario reduces the immediate rate impact on customers as compared to the 24-month scenario. Staff further recommends that UNSE be authorized to terminate the PPFAC surcharge in the event that the bank balance reaches zero at any time during the proposed time period, provided that UNSE notify the Commission within 15 days of its decision to terminate the PPFAC surcharge.

CONCLUSIONS OF LAW

1. UNS Electric, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over UNS Electric, Inc. and the subject matter of this application.

3. The Commission, having reviewed the application and Staff's memorandum, concludes that it is in the public interest to approve the Purchased Power and Fuel Adjustment Clause surcharge rate of \$0.00987 per kilowatt-hour effective February 1, 2022, through July 31, 2024.

ORDER

IT IS THEREFORE ORDERED that a Purchased Power and Fuel Adjustment Clause surcharge rate of \$0.00987 per kilowatt-hour beginning February 1, 2022, through July 31, 2024, is hereby approved as discussed herein.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall terminate the surcharge in the event that the Purchased Power and Fuel Adjustment Clause bank balance reaches zero at any time during the February 1, 2022, through July 31, 2024, time period, provided that UNS Electric, Inc. notifies the Commission within 15 days of its decision to terminate the surcharge.

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IT IS FURTHER ORDERED that UNS Electric, Inc. shall file an updated Statement of Charges consistent with the Decision in this case within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRWOMAN MÁRQUEZ PETERSON


COMMISSIONER KENNEDY


COMMISSIONER OLSON


COMMISSIONER TOVAR


COMMISSIONER O'CONNOR



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 31 day of January, 2022.


MATTHEW J. NEUBERT
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EOA:RPK:jn/SAE

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2 Docket No. E-04204A-21-0374

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